

INDUSTRY UPDATE

Biweekly Period Ending August 24, 2002

Phoenix Metro Area

Manufacturing

In late August, Cleveland, Ohio-based **TRW** was **close** to wrapping up the **sale** of its **two air-bag manufacturing plants in Mesa**, which **employ 1,450 people**. Two private investors, **Blackstone Group** and **Carlyle Group**, were expected to pay about \$5 billion for the two operations, which provide the majority of air bags to U.S. automobile makers. In July, Los Angeles-based Northrop Grumman Corp. agreed to purchase TRW for \$7.8 billion in stock, but said it would sell off TRW's Automotive division (which includes the air-bag operations). No information was available on how the sale of the air-bag facilities might affect local employment.

Eighty employees of a **Motorola biotech unit** based in Tempe are **not expected** to be **affected** by the **sale** of the business **to Amersham PLC** of England for \$20 million. The prime client of Motorola's Life Science's CodeLink business is the University of Arizona, which uses prearrayed slides produced by the unit to study how diseases react to various drugs. Motorola sold the biotech unit so it could concentrate on its core electronics and high-tech business, the company said.

Transportation, Communications, and Public Utilities

WorldCom Corp., which has been under scrutiny of Congress and U.S. Justice Department for potential fraud and accounting violations, **laid off** about **200 workers** in mid-August from its four **Phoenix-**

area customer-service sites, or slightly less than 10 percent of its Arizona workforce. The long-distance telephone company, saddled with \$40 billion in debt, recently filed the largest bankruptcy in U.S. history after reporting billions of dollars in accounting errors. The layoffs affect customer service, management, and information technology positions.

Finance, Insurance, and Real Estate

Cottonwood-based **National Bank of Arizona** is **acquiring** the assets and branches of **Frontier State Bank**. Frontier has locations in Camp Verde, Eager, Heber-Overgaard, Pinetop-Lakeside, Show Low, and Snowflake-Taylor. After the purchase is completed, National Bank, a subsidiary of Zions Bancorporation of Salt Lake City, will have 52 branches in 37 communities. No information was available on how the acquisition will affect Frontier's 75 employees.

Trade

"Are you ready for some ... *shopping centers?*" Despite a sluggish local and state economy, including a decline in retail trade employment, Valley developers are always looking ahead to a brighter day — and that means shopping in the Phoenix area. The **primary catalyst** for a **half-dozen** new **retail centers** in the **south-east Valley**, expected to open within the next two years, is Loop 202 (San Tan Freeway) in Chandler, Gilbert, and Mesa. Aligned along the San Tan will be: **three Vestar Development projects**, including 1 million-square-foot retail development called **Santan Towne Center** (Gilbert Road), 800,000-square-foot power center

called **Gilbert Gateway Towne Center** (Power Road), and 235,000-square-foot **Chandler Towne Center** (Arizona Avenue), which will include a **Wal-Mart supercenter**; and further to the east (Williams Field Road), a 1 million-square-foot retail center by **Westcor Partners** called **Crossroad Power Center**, which will include a Harkins Theater megaplex. Also planned several miles to the north (Cooper and Baseline roads) is a 250,000-square-foot CB Richard Ellis project called **The Shoppes at Cooper Commons**, which will be completed in fall 2003; and another Vestar project, 233,000-square-foot **Ocotillo Towne Center** (Alma School and Queen Creek roads) that opens later this year. Get out your wallet.

The **CVS drug store chain** will open its first of **six planned stores** in the Valley (and state) in September in Chandler (Warner and McQueen roads), with the intention of eventually opening 60 locations in the Phoenix metro area. The largest chain of drug stores, Rhode Island-based CVS operates more than 4,000 stores nationally, primarily in the East, Midwest, and South. But CVS is up against strong competition in the Valley from Walgreen's (191 stores), Osco (134 stores), and another newcomer to the state, Eckerd, not to mention privately owned pharmacies. Owned by JCPenney, **Eckerd** expects to **open 60 stores in Phoenix and Tucson by 2004**. Wanting to tap into a large retiree and aging baby boomer market, there are currently nearly 400 drug stores in the Valley and 625 statewide.

Despite plans for drug stores and shopping malls, not all retailers in the Phoenix area are doing well. **Two** long-time local **electronics chains** recently **filed for bankruptcy protection** — **Roy Edwards Warehouse** and **Buzz Jensen's Sound Advice**. Roy Edwards had three

stores in the Valley, while Buzz Jensen had two. Both businesses cited competition from major chains (e.g., Best Buy, Ultimate Electronics) as the primary reason for their demise.

Services

Three new Valley resorts have been holding job fairs to **find more than 2,500 workers** for the opening of their hotels starting in October. Whereas it might have been difficult to find hotel workers (waiters, clerks, and maids) a couple of years ago, with the drop-off in tourism (and the associated declining occupancy rates), jobs in the hotel industry have been more scarce (down 4,000 between July 2001 and July 2002). In mid-August, the **Gila River Indian Community filled** about **90 percent** of an expected **450 jobs** for its 500-room **Sheraton Wild Horse Pass Resort** (I-10 and Maricopa Road) that will open October 1. A PGA tournament will be held Oct. 7-13 at the resort's recently completed 18-hole golf course. Opening a month later will be the 735-room **Westin Kierland Resort** in northeast Phoenix (Greenway and Scottsdale roads), which was scheduled to hold a job fair the second week of September. The Westin, which also has an 18-hole golf course, plus a shopping village called "Main Street," is **recruiting 800 employees**. More information is available by calling 480-624-1410. Finally, **The JW Marriott Resort at Desert Ridge** in north Phoenix (Loop 101 and Tatum Boulevard), next to the Desert Ridge outdoor mall, will hold **jobs fairs in October at Scottsdale and Paradise Valley community colleges**. The 950-room hotel, the state's largest, needs to **fill** about **1,000 jobs immediately and 1,400 during peak season**. More information on the Marriott's job fairs is available by calling 480-367-6140 (English) or 480-367-6141 (Spanish).

Tucson Metro Area

Manufacturing

The **weakness** of the **U.S. airline industry** is **spilling over** into the **maintenance business of Bombardier Inc.**, which employs about 1,800 workers at its Tucson facility where it services large commercial planes and installs aircraft interiors. The company's net income fell 65 percent in the second quarter and the near-term future doesn't look brighter. Two of Bombardier's largest clients — US Airways and United Airlines — are in financial trouble and cutting back on orders for new planes.

Transportation, Communications, and Public Utilities

Although **American Airlines** announced in mid-August it was **eliminating 7,000 jobs**, or 6 percent of its worldwide workforce, it's **too early** to tell if the **cuts will affect Tucson's reservation center**, which employs about 1,100 people. According to an *Associated Press* story, most of the layoffs will affect pilots, flight attendants, and other personnel associated with smaller aircraft used with the company's American Eagle and TWA subsidiaries. Following the Sept. 11, 2001, terrorist attacks, American's reservation center in Tucson laid off about 200 workers, but since has recalled about half of those employees.

Services

About **two-thirds of 380 positions** at **Health Net's Tucson operations** were **eliminated** in late August as part of a consolidation plan by the health maintenance organization. Formerly known as Intergrupp, Health Net has struggled financially in recent years (\$25 million loss

in 2001), and sees the **consolidation of customer service, claims, and accounting positions** into **facilities in California and Connecticut** as a way to return to profitability. Health Net of Arizona, the fifth largest HMO in the state, received the second largest number of complaints filed with the state Department of Insurance in 2001. The **130 workers** left will be involved with **sales, account services, provider relations, and network management**.

Balance of State

Manufacturing

Lured by lower expenses and the proximity of one of its major clients, Anaheim, Calif.-based **Cristek Interconnects** is **expanding its operations to Sierra Vista**. The maker of electronic connectors and cable assemblies for aerospace, military, and health applications will **initially employ 15 to 20 workers**, but expects the **workforce to increase to 150** when it opens a 5,000-square-foot facility before the **end of 2002**. Cristek, which will **hire sales, customer service, and assembly workers**, was encouraged to expand to Arizona by its largest client, Raytheon Missile Co. in Tucson. In the past year, Cristek has followed two other high-tech businesses to Sierra Vista — a Northrop Grumman Corp. information technology center, and an AAI Corp. development and testing center.

A four-year-old **Flagstaff machine-tool business** more than **doubled its operating space** when it moved from University Avenue to the Pulliam Airport Business Park in mid-August. **Machine Solutions**, which expects to **add about a half-dozen workers** by the **end of 2002**, will use a little less than one-quarter of a relatively

new 30,000-square-foot building at the airport to **make assembly line machines** that **produce medical catheters**.

Construction

While construction has slowed in some parts of the state, apparently Lake Havasu City hasn't heard about it. **Three major single-family home communities** are **under development**, while plans for some additional "big box" stores and a regional mall are taking root. The latest planned subdivision (west of London Bridge Road) to start digging dirt is 100-acre \$50 million **Desert Palms**, which will feature 541 residential lots at full build-out in five years. Two other home developments, both in the Desert Hills area, already under way are: **The Refuge**, with 360 single-family homes and an 18-hole golf course; and **Canterbury Estates**, with 140 houses. ... While still in the planning stage, it appears that Lake Havasu City may soon have its own **regional mall** (ala, Prescott and Sierra Vista). An **unidentified developer** has **asked for zoning change** to 215 acres in **The Centre project** (west side of State Route 95 across from municipal airport), with about 105 acres expected to be used for the mall. The developer wants a change to the zoning to prevent heavy industry from locating near the shopping development. **Home Depot** recently **opened a store south of the planned mall**, with the **city in negotiations** with **two other big box stores** (Costco, being one) to locate near Home Depot.

Services

Dominion Correctional Services of Edmond, Okla., is considered the **leading candidate** for a **1,400-bed private prison** — recently put out to bid by the Arizona Department of Corrections —

that will be located in Mohave County. Dominion, which has a contract with Mohave County, has spent \$2.5 million on a site west of Kingman (near the Griffith Energy Plant) that has already received environmental approval. The new facility, which will **create 240 full-time jobs** with an average wage of \$13 an hour, will house 400 DUI offenders by **March 2003**. The Corrections Department is expected to award the bid for the \$30 million prison in October. (See related story below.)

Statewide

Government

The **state's prison system** is **under-staffed** by more than **1,600 officers**, according to a recent report produced by a private consulting firm hired by the state Department of Corrections. Unfortunately, the state's budget problems will not allow the state to fix the shortage in the near future. Arizona, which is facing a \$400 million deficit in the current fiscal year and an anticipated \$1 billion deficit in the following fiscal year, would need at least \$40 million to pay for 1,600 new officers, not counting training and benefits.

Miscellaneous

The state's **tourism business** took a **double whammy** this **summer** because of last year's terrorism events and this summer's fires in eastern Arizona. **Occupancy rates** at mountain hotels along the Mogollon Rim were **down** by about **one-half** in July and the first half of August compared to a normal summer, while tourism at the **Grand Canyon National Park** was **off nearly 10 percent** in July due to fewer travelers from Asia and Europe. Towns and cities such as Flag-

staff, Show Low, Pinetop-Lakeside, and Payson were particularly hard hit by the drop-off in business. And even resorts in the Phoenix and Tucson metro areas — which normally see a sharp drop in business during the summer — had lower-than-normal occupancy rates this summer because of the weaker economy.

INDUSTRY UPDATE

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